



*Serving those who serve South Carolina*

# Fiscal Year 2017 Budget Request House Ways and Means Healthcare Subcommittee

February 3, 2016

Peggy G. Boykin, CPA

Executive Director



# **FY 2017 budget request**



# FY 2017 budget request

Funded Program	FY16 Appropriations	FY17 Budget Request	
<b>I. Administration</b>			
Personal Services	\$1,382,237	\$281,800	
Other Operating	\$3,089,262	-	
<b>Administration Total</b>	<b>\$4,471,499</b>	<b>\$281,800</b>	
<b>II. A. Employee Insurance Program</b>			
Personal Services	\$4,946,532	\$6,417,509	
Adoption Assistance <sup>1</sup>	\$300,000	\$300,000	
Other Operating	\$4,686,663	\$5,253,720	
<b>Employee Insurance Program Total</b>	<b>\$9,933,195</b>	<b>\$11,971,229</b>	
<b>II. B. Retirement Systems</b>			
Personal Services	\$8,265,120	\$8,703,867	
Other Operating	\$4,887,809	\$5,795,716	
<b>Retirement Systems Total</b>	<b>\$13,152,929</b>	<b>\$14,499,583</b>	
<b>III. Statewide Employer Contributions<sup>2</sup></b>		<b>\$8,271,510</b>	<b>\$8,189,296</b>
<b>IV. Employee Benefits</b>			
Employer Contributions	\$4,472,468	\$5,277,479	
<b>Employer Contributions Total</b>	<b>\$4,472,468</b>	<b>\$8,271,510</b>	<b>\$8,189,296</b>
<b>GRAND TOTAL – TRUST FUNDS</b>	<b>\$32,030,091</b>	<b>\$32,030,091</b>	
<b>GRAND TOTAL – GENERAL FUNDS</b>		<b>\$8,271,510</b>	<b>\$8,189,296</b>

<sup>1</sup>Adoption Assistance is funded from the State Health Plan. Requests for reimbursement are expected to be more than \$300,000.

<sup>2</sup>Details available on Slide 6.

# Authorized operating budget trend



	Authorized Budget				
	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
<b>Trust Funds</b>					
Personal Services Total	\$15,163,827	\$14,463,827	\$14,593,889	\$14,593,889	\$14,593,889
Other Operating Total <sup>1</sup>	\$11,463,734	\$12,163,734	\$11,963,734	\$12,663,734	\$12,663,734
Adoption Assistance	\$300,000	\$300,000	\$300,000	\$300,000	\$300,000
Employer Contributions	\$4,402,530	\$4,402,530	\$4,472,468	\$4,472,468	\$4,472,468
<b>Total Trust Funds</b>	<b>\$31,330,091</b>	<b>\$31,330,091</b>	<b>\$31,330,091</b>	<b>\$32,030,091</b>	<b>\$32,030,091</b>
<b>General Funds<sup>2</sup></b>					\$8,271,510
<b>PEBA GRAND TOTAL</b>	<b>\$31,330,091</b>	<b>\$31,330,091</b>	<b>\$31,330,091</b>	<b>\$32,030,091</b>	<b>\$40,301,601</b>

<sup>1</sup>Trust Fund authorizations have been unchanged since FY 2012, except for \$700,000 in FY 2015 Administration Other Operating expenses which was for the Fiduciary Audit. The \$700,000 remained in the FY 2016 Other Operating expenses.

<sup>2</sup>General Funds previously appropriated through the Budget and Control Board were transferred to PEBA in FY 2016.



# FY 2017 budget request

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- PEBA is not seeking an operating budget increase for FY 2017.
- PEBA's operating budget has remained consistent since FY 2012.
- The only increase was for \$700,000 in FY 2015 for the Fiduciary Audit; increase remained in FY 2016 budget.
- PEBA is funded by trust funds<sup>1</sup>, not the general fund.
- Statewide Employer Contributions in the General Fund were transferred to PEBA in FY 2016.

<sup>1</sup>Funded by trust funds according to statute in Sections 1-11-710(A)(4) and 9-1-310 of the S.C. Code of Laws.

# FY 2017 statewide employer contributions



Funded Program	FY16 Appropriations	FY17 Budget Request
<b>III. Statewide Employer Contributions</b>		
Unemployment Compensation Insurance	\$1,895	\$1,895
St Ret-Mil & Non-Mem Serv Ret	\$77,014	\$77,014
State Employee Retiree Supplement	\$623,357	\$623,357
Public School Employee Supplement	\$538,927	\$538,927
Police Insurance & Annuity Fund	\$11,041	\$11,041
Police Officer Retiree Supplement	\$53,178	\$53,178
National Guard Pension Supplement	\$4,590,798	\$4,508,584
OPEB Trust Fund	\$2,375,300	\$2,375,300
<b>Statewide Employer Contributions Total</b>	<b>\$8,271,510</b>	<b>\$8,189,296</b>

Details are available on Slide 7 for the SCNG Supplement.

January 14, 2016

Peggy G. Boykin, CPA  
Executive Director  
South Carolina Public Employee Benefit Authority  
PO Box 11960  
Columbia, SC 29211-1960

**Re: South Carolina National Guard Pension Fund Contribution for Fiscal Year 2017**

Dear Peggy:

We have completed the actuarial valuation as of July 1, 2015 for the South Carolina National Guard Supplemental Retirement Plan. The results of the valuation determined that the State contribution requirement for the fiscal year ending June 30, 2017 is \$4,508,584. This is a \$61,389 decrease in the contribution requirement compared to contribution amount entailed for the fiscal year ending June 30, 2016.

The 2015 valuation report, dated November 20, 2015, provides discussion and details regarding the calculation of the contribution requirement, as well as a reconciliation of the change in the contribution requirement determined by the prior actuarial valuation.

Please do not hesitate to contact us if you have any questions or wish to discuss.

Sincerely,

**Gabriel, Roeder, Smith & Co.**



Joseph P. Newton, FSA, MAAA, EA  
Senior Consultant



Daniel J. White, FSA, MAAA, EA  
Senior Consultant

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# State Health Plan options

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## Option 1:

### Grandfathered Plan

- Current plan

## Option 2:

### Grandfathered Plan

- Current plan
- Includes ACA adult well exams

## Option 3:

### Non-grandfathered Plan

- Current plan
- Includes all ACA benefits

# Preliminary SHP budget requirements for FY 2017



	% increase on total contributions	Employee only	Employee and employer share proportionally		Employer only
		Employee increase per month <sup>1</sup>	State \$ <sup>2</sup>	Employee increase per month <sup>1</sup>	State \$ <sup>2</sup>
<b>Grandfathered</b> Current plan	0.6%	\$3.98	\$26.2 M	\$0.92	\$26.9 M
<b>Grandfathered</b> Current plan plus ACA adult well exams	2.8%	\$18.54	\$35.3 M	\$4.32	\$38.8 M
<b>Non-grandfathered</b> Current plan plus ACA benefits	3.2%	\$21.20	\$36.9 M	\$4.94	\$41.0 M

<sup>1</sup>Employee increase per month represents the amount the Plan would receive per subscriber. The increase could be a flat increase for all employers, or distributed proportionally by coverage level.

<sup>2</sup>State \$ includes amounts for 2017 rate increase for Jan-Jun 2017 (\$2.5 M - \$3.2 M for GF plan/\$11.6 M - \$15.1 M for GF plan with well exams/\$13.3 M - \$17.3 M for non-GF plan), annualization of 2016 rate increase for Jul-Dec 2016 (\$17.7 M), estimated retiree enrollment growth (\$4.4 M) and dental rate increase effective January 2017 (\$1.5 M). Note: This estimate is subject to revision during 2016 with analysis of additional claims experience.



# Provisos



# PEBA proviso 108.1

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- (PEBA: Lottery, Infrastructure Bank, and Magistrates Health Insurance) South Carolina Lottery Commissioners and South Carolina Transportation Infrastructure Bank Board members and their eligible dependents are eligible to participate in the State Health and Dental Insurance Plan, upon paying the full premium costs as determined by the Public Employee Benefit Authority. If a county is participating in the State Health and Dental Insurance Plan, magistrates and their eligible dependents are eligible to participate in the State Health and Dental Insurance Plan, upon the magistrate paying the full premium costs as determined by the Public Employee Benefit Authority.



# PEBA proviso 108.2

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- (PEBA: Adoption Assistance Program) The Employee Adoption Assistance Program is established to provide grants to eligible employees to assist them with the direct costs of adoption. The program shall be an employee benefit through the Public Employee Benefit Authority (PEBA) and shall be funded from the appropriation for the State Health Plan as provided in this act. Total funding for the Adoption Program shall not exceed the amount authorized by the General Assembly in the annual appropriations act. Employees are eligible for the Adoption Program if they participate in PEBA insurance benefits, have adopted a child during the prior fiscal year, apply for the grant during the annual application period, and meet any other Adoption Program criteria. The application period shall be July first through September thirtieth of the current fiscal year for an adoption in the prior fiscal year. The maximum grant amounts shall be \$10,000 in the case of the adoption of a special needs child and \$5,000 for all other child adoptions. Should the total amount needed to fund grants at the maximum level exceed the amount authorized, the amount of a grant to an eligible employee shall be determined by dividing the authorized amount evenly among qualified program applicants, with the adoption of a special needs child qualifying for two times the benefit of a non-special needs child.



## PEBA proviso 108.3

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- (PEBA: Health Plan Tobacco User Differential) For health plans adopted under the authority of Section 1-11-710 of the 1976 Code by the Public Employee Benefit Authority during the current fiscal year, the board is authorized to differentiate between tobacco users and nonusers regarding rates charged to enrollees in its health plans by imposing a surcharge on enrollee rates based upon tobacco use. The surcharge for tobacco use may not exceed \$40 per month per subscriber or \$60 per month per subscriber and dependent(s).



# PEBA proviso 108.4

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- (PEBA: Funding Abortions Prohibited) No funds appropriated for employer contributions to the State Health Insurance Plan may be expended to reimburse the expenses of an abortion, except in cases of rape, incest or where the mother's medical condition is one which, on the basis of the physician's good faith judgment, so complicates the pregnancy as to necessitate an immediate abortion to avert the risk of her death or for which a delay will create serious risk of substantial and irreversible impairment of major bodily function, and the State Health Plan may not offer coverage for abortion services, including ancillary services provided contemporaneously with abortion services. The Public Employee Benefit Authority must determine the amount of the total premium paid for health coverage necessary to cover the risks associated with reimbursing participants in the plan for obtaining an abortion in the circumstances covered by this provision. The determination must be based on actuarial data and empirical study in the same manner and by the same method that other risks are adjusted for in similar circumstances. The plan must report this determination annually to the respective Chairmen of the Senate Finance Committee and the House Ways and Means Committee.



# PEBA proviso 108.5

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- (PEBA: TRICARE Supplement Policy) The Public Employee Benefit Authority (PEBA) shall offer a group TRICARE Supplement policy or policies to its TRICARE-eligible subscribers through its flexible benefits program to provide that subscribers may pay premiums for such policies on a pretax basis, in accordance with federal law and regulations. PEBA may charge TRICARE Supplement subscribers an amount not to exceed \$2 per subscriber per month for any associated administrative costs.



# PEBA proviso 108.6

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- (PEBA: FY 2016 State Health Plan) Of the funds authorized for the State Health Plan in Plan Year 2016 pursuant to Section 1-11-710(A)(2) of the 1976 Code, an employer premium increase of 4.5 percent and a subscriber premium increase of zero percent for each tier (subscriber, subscriber/spouse, subscriber/children, full family) will result for the standard State Health Plan in Plan Year 2016. Co-payments for participants of the State Health Plan in Plan Year 2016 shall not be increased. Notwithstanding the foregoing, pursuant to Section 1-11-710(A)(3), the Public Employee Benefit Authority may adjust the plan, benefits, or contributions of the State Health Plan during Plan Year 2016 to ensure the fiscal stability of the Plan.
  - Needs to be amended for FY17 numbers. This proviso is updated by the General Assembly after the budget is determined.



## PEBA proviso 108.7

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- (PEBA: Exempt National Guard Pension Fund) In the calculation of any across-the-board cut mandated by the Executive Budget Office or General Assembly, the amount of the appropriation for the National Guard Pension Fund shall be excluded.



## PEBA proviso 108.8

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- (PEBA: Inactive SCRS Account Transfer) A current employee or teacher who is an active participant in the State Optional Retirement Program but who has an inactive account in the South Carolina Retirement Program due to previous service in that system, shall be allowed to transfer previous contributions to the employee's or teacher's active State Optional Retirement Program account.
  - Deletion of this proviso is requested



## PEBA proviso 108.9

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- (PEBA: Network Pharmacy Publications) All pharmacy publications or lists must include independent retail pharmacies. Abridged pharmacy lists are prohibited.



# PEBA proviso 108.13

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- (PEBA: Covered Contraceptives) In its Plan of Benefits effective January 1, 2016, the State Health Plan shall not apply patient cost sharing provisions to covered contraceptives. This provision does not alter the current approved list of contraceptives and complies with the requirements of proviso 108.4.



# **PEBA highlights**

# State Health Plan enrollment as of January 2016



Subscribers		
Subscribers		270,047
Actives	186,374	
Retirees	80,352	
Others	3,321	
Spouses		77,952
Children		126,164
<b>Total Covered Lives</b>		<b>474,163</b>

Active subscribers	
State agencies	35,224
Higher education	25,411
School districts	85,237
Local subdivisions	32,214
Other	8,288
<b>Total employees</b>	<b>186,374</b>

Retirees	
Medicare	59,335
Non-Medicare	21,017
<b>Total Retirees</b>	<b>80,352</b>

**Total Employer Groups: 682**

# State Health Plan vs. national trends



	Public and Private Sector Insurance Plans <sup>1</sup>	State Health Plan <sup>2</sup>
2011	6.7%	2.3%
2012	6.7%	6.4%
2013	5.6%	4.0%
2014	7.9%	-1.4%
2015	8.1%	8.8% (12/12) <sup>3</sup>

<sup>1</sup>Includes active participants and retirees under the age of 65 in private and public sector insurance plans.

<sup>2</sup>Trend is defined as claims paid per member (includes employee and dependents).

<sup>3</sup>"12/12" means incurred in 12 months; paid in 12 months

# 2014 average annual gross plan cost per active employee<sup>1</sup>



	Amount <sup>2</sup>
State Health Plan	\$9,129
Public Employers	\$11,796
Private – Mfg.	\$11,043
Private – Financial Srvs.	\$11,525
All Employers	\$10,664
Employers – 500+	\$11,121
Employers – 20k+	\$11,697
South <sup>3</sup>	\$10,239

<sup>1</sup>Average cost in PPO (Preferred Provider Organization) and POS (Point of Service) plans

<sup>2</sup>**Average Annual Gross Plan Cost per Employee (Medical and Pharmacy Only for Active Employees and Their Dependents) =** (Claims cost for employee and dependents + administrative costs + employee contributions)/number of active employees

<sup>3</sup>**South:** Includes Alabama, Arkansas, Delaware, Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, North Carolina, Oklahoma, South Carolina, Tennessee, Texas, Virginia and West Virginia

# 2015 average monthly total premiums



Totals include employee and employer contributions

	Single	Family
State Health Plan	\$442	\$1,161
Lg. Public & Private Sector Employers <sup>1</sup>	\$549	\$1,554
Public & Private Sector Employers in South <sup>2</sup>	\$521	\$1,453
Public Employers	\$582	\$1,455
Private – Manufacturing	\$516	\$1,474
Private – Financial Services	\$582	\$1,664

<sup>1</sup>Lg. Public and Private Sector Employers: ≥ 200 employees in public and private sectors

<sup>2</sup>Public & Private Sector Employers in South: Includes Alabama, Arkansas, Delaware, District of Columbia, Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, North Carolina, Oklahoma, South Carolina, Tennessee, Texas, Virginia and West Virginia

# 2015 average annual deductible



	Amount
State Health Plan	\$445
Lg. Public & Private Sector Employers <sup>1</sup>	\$775
Public & Private Sector Employers in South <sup>2</sup>	\$1,026

<sup>1</sup>Lg. Public and Private Sector Employers: ≥ 200 employees in public and private sectors

<sup>2</sup>Public & Private Sector Employers in South: Includes Alabama, Arkansas, Delaware, District of Columbia, Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, North Carolina, Oklahoma, South Carolina, Tennessee, Texas, Virginia and West Virginia

# 2016 composite monthly premiums<sup>1</sup>



## Compared to other state employee health plans

	Employer	Employee	Total
State Health Plan	\$510.60	\$159.51	\$670.11
South <sup>2</sup>	\$661.21	\$174.80	\$836.00
United States	\$821.46	\$171.31	\$992.76

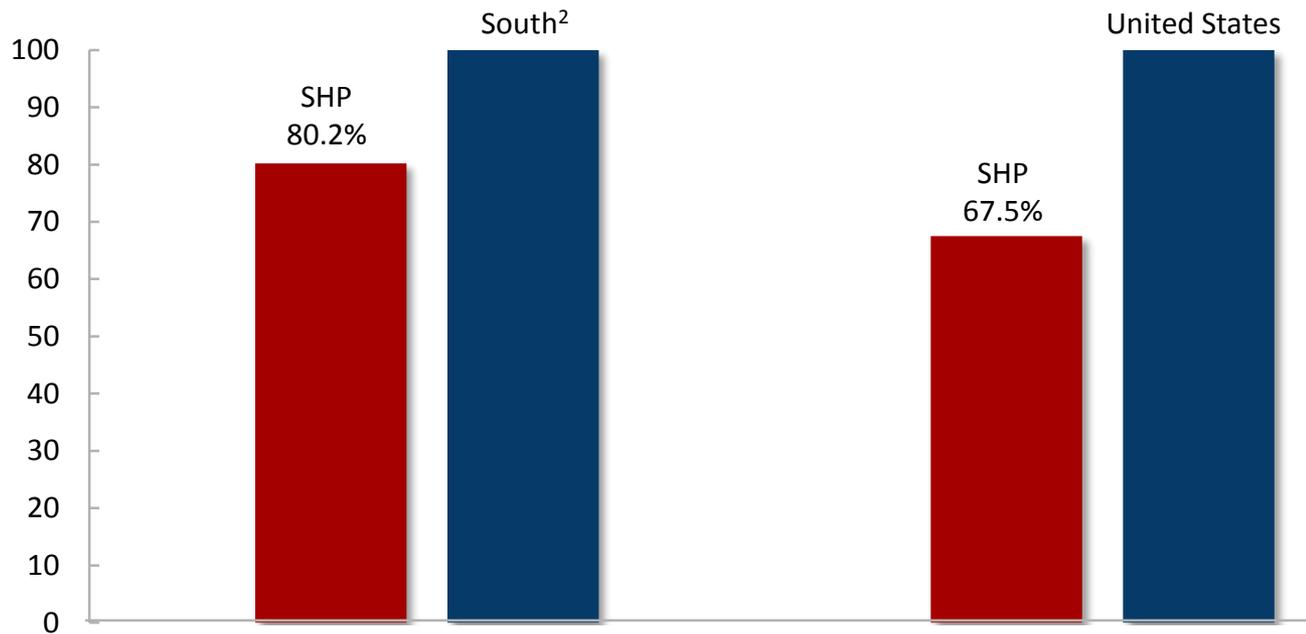
<sup>1</sup>**Composite Monthly Premiums:** Weighted average of all PEBA health subscribers enrolled in each coverage level

<sup>2</sup>**South:** Includes Alabama, Arkansas, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, Oklahoma, South Carolina, Tennessee, Texas, Virginia and West Virginia

# 2016 SHP composite monthly premiums<sup>1</sup> as a percentage of regional and national averages



## Compared to other state employee health plans



<sup>1</sup>**Composite Monthly Premiums:** Weighted average of all PEBA health subscribers enrolled in each coverage level

<sup>2</sup>**South:** Includes Alabama, Arkansas, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, Oklahoma, South Carolina, Tennessee, Texas, Virginia and West Virginia



# Operational assessment

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- An operational assessment is currently being conducted due to an aging information systems infrastructure that will require replacement during the next five years
- Current systems, while they have served us well, are custom and are written in old language

# Three sources of income for Retirement Systems

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- There are three sources of income to provide benefits in the Retirement Systems: investment income, employee contributions and employer contributions.
- If any source of funding is reduced, the other sources must be increased, or benefits reduced, to keep the Systems sound.

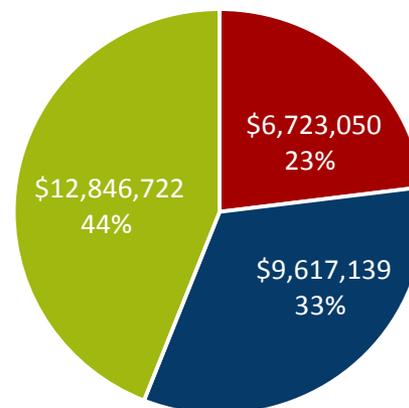
# Breakdown of additions to Pension Trust Funds



- The investment return has a significant impact on revenue of the trust funds

## Additions to Pension Trust Funds 2006-2015

Includes five defined benefit plans  
Amounts expressed in thousands



■ Employee contributions ■ Employer contributions  
■ Investment income



# Pension reform – Act 278

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- No decrease in contribution rates may be made until the System is at least 90 percent funded
  - Employers and employees must share any additional increases required to sustain the pension plans
  - Contributions must be increased to keep the funding period of the pension plans within 30 years
- Budget and Control Board decreased the assumed investment rate from 8 percent to 7.5 percent prior to reform in 2012
  - As a result of the reform, the General Assembly set the 7.5 percent in statute



# Investment returns

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- Investment returns have been challenging, not only for South Carolina's public plans, but the country as a whole.
- Systems' funding is based on the investment program earning 7.5 percent each year.
- If the investment program does not earn 7.5 percent, there will be a funding shortfall.
- The 10-year annualized return of the investment program as of June 30, 2015, was 5.06 percent, net of fees.

# Contribution rate increases required

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- Investment return for fiscal year 2015 was 1.6 percent, or \$1.8 billion short of the expected investment return of 7.5 percent
  - As a result, employee and employer contributions as of July 1, 2017, for SCRS must each be increased by a minimum of .03 percent to maintain the 30-year amortization period
  - If the \$1.8 billion is not made up with investment gains over the next five years (smoothing period), SCRS employee and employer contributions will each have to go up ultimately by **approximately** a half of a percent for a total of 1 percent



# Contribution rates

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- If investment returns cannot meet the 7.5 percent assumed rate of return in the future, funding shortfalls will continue to occur and contribution increases will continue to be required to keep SCRS funded within the required 30-year amortization period.

# Additional increases to contribution rates

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- Most recent information from the RSIC is that investment returns for fiscal year 2016 are negative.
- If we end FY16 at the same place as FY15, we can expect **approximately** another half a percent in contribution increases for both employers and employees.
- If the loss is more, the increase in contributions will increase.

# Additional increases to contribution rates

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- Statute allows PEBA and the State Fiscal Accountability Authority (SFAA) to increase contribution rates by a half a percent in a given year
  - Authority to increase rates more than required to meet the 30-year amortization period has not been used previously
  - Historically, there has been a two-year delay to allow completion of valuations and entities to incorporate the increases into their budget process

# Experience study schedule

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- Study is expected to be completed soon
- A key assumption being evaluated is the assumed investment rate of return
- Assumed investment rate of return recommendation
  - A .25 percent decrease in the assumed investment rate of return will result in **approximately** a half a percent increase in contribution rates for both employees and employers

# Experience study schedule

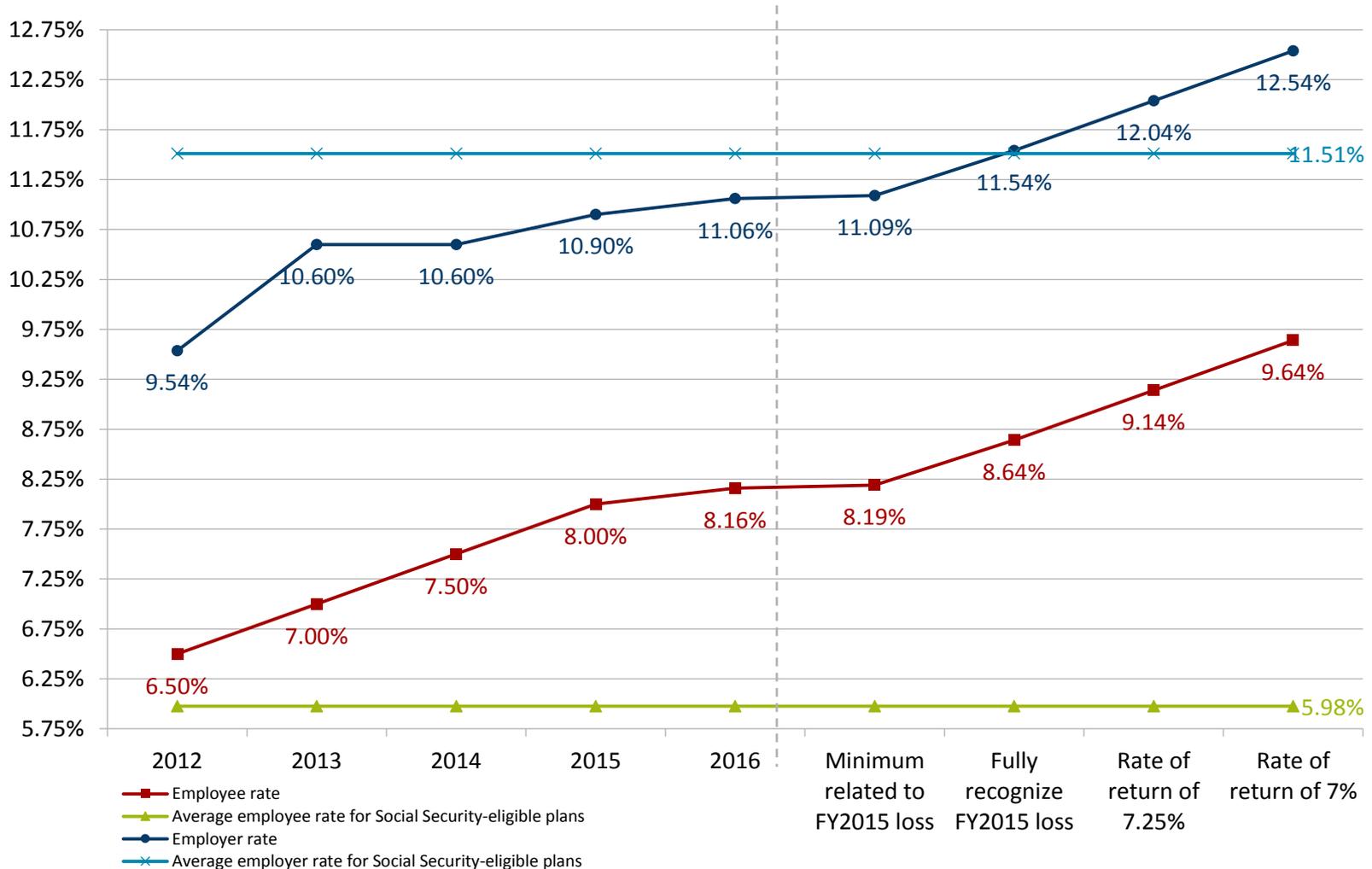
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- The assumed rate of return is made up of an inflation assumption and a real rate of return assumption
- Changes to the inflation assumption will impact the investment and liability calculations.
  - Salary, Payroll Growth Rate of Return
- Mortality improvements

# SCRS contribution rates

Please note that these figures are approximate.



The contribution rates are projected numbers and subject to change. The contribution rates for a rate of return of 7.25% include a 2.75% inflation; the contribution rates for a rate of return of 7% include a 2.5% inflation. Average rates related to general employees and teachers only (not public safety) eligible for Social Security for FY 2014. Average employee contribution rates typically are between four and eight percent of pay. Average rates provided by NASRA.



# Disclaimer

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This presentation does not constitute a comprehensive or binding representation regarding the employee benefits offered by the South Carolina Public Employee Benefit Authority (PEBA). The terms and conditions of the retirement and insurance benefit plans offered by PEBA are set out in the applicable statutes and plan documents and are subject to change. Please contact PEBA for the most current information. The language used in this presentation does not create any contractual rights or entitlements for any person.